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FISCAL IMPACT STATEMENT

LS 7038 | **NOTE PREPARED:** Jan 11, 2009
BILL NUMBER: HB 1369 | **BILL AMENDED:**

SUBJECT: Property Tax Assessment.

FIRST AUTHOR: Rep. Hinkle | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill does the following:

Effective January 1, 2011:
(1) It eliminates county assessors, township assessors, and county property tax assessment boards of appeal;
(2) It establishes a State Assessment Division in the Department of Local Government Finance (DLGF) that includes ten regions in Indiana, each with a regional assessor;
(3) It requires the DLGF to perform property assessment functions throughout Indiana, including the general reassessment of real property effective in 2011 and functions previously performed by the county assessor;
(4) It provides for payment of regional assessors' salaries from the property reassessment funds of the counties in the region;
(5) It establishes a State Assessment Board; and
(6) It establishes a county exemption board in each county.

The bill establishes an appointments committee to recommend candidates to the Governor for appointment to positions in the State Assessment Division.

The bill increases the penalty for failure to file a correct sales disclosure form from $100 to $500.

Effective January 1, 2015:
(1) It defines fair market value to be based primarily on the most recent sale price;
(2) It requires the DLGF to assess all real property in Indiana on the basis of fair market

value; and
(3) It permits the DLGF to create a new assessment after 2015 if physical alteration of the property has occurred, but requires a new assessment only upon petition by the property owner.

Effective Date: Upon passage; July 1, 2009; January 1, 2010; January 1, 2011.

Explanation of State Expenditures: *Summary -* The bill will increase costs for the DLGF to take over the assessment of property from county and township assessors. Also, the establishment of an appointments board will increase costs for mileage and staff time. The State Assessment Board is composed of ex officio officers of the DLGF and may incur additional administrative costs. Salary expenses for regional offices will be offset by funding from counties, but office expenses including postage, notification, and physical office space will be paid by the DLGF. Also, the repeal of certain DLGF responsibilities concerning supervision of local tax assessing officials and training of assessing officials may offset some costs.

Background -

State Assessment Division: The State Assessment Division (SAD) of the DLGF is established, including 14 offices within the SAD:

- The Personal Property Office to monitor personal property assessment and conduct audits, among other responsibilities.

- The Real Property Office to monitor real property assessments, exemptions, deductions, and tax increment financing.

- The Geographic Information System and Mapping Office to coordinate use of global information systems and mapping.

- The Education and Training Office to oversee educating and training of all DLGF employees.

- Ten regional offices delineated by county.

The SAD is administered by the State Assessing Supervisor, four assistant state supervisors, and 10 regional assessors. These officials are appointed by the Governor from among three nominees provided the Governor by the Appointment Committee.

Appointment Committee: The Appointment Committee consists of four members appointed by the Governor to a two-year term. The chairman of the committee is also appointed by the Governor. Not more than two members of the committee may be of the same political party. The committee members are entitled to reimbursement for traveling expenses, and the DLGF staffs the committee and funds the committee through its budget.

Regional Assessors and Regional Offices: The regional assessors must have at least five years experience in the real estate industry, be a resident of the region, be a Level III certified assessor, and hold a bachelors degree, real estate broker license, appraiser license, or a designation as an Assessment

Administration Specialist. The regional assessors will serve staggered terms of six years. The compensation for regional assessors will be set by the Governor with approval by the Budget Agency.

All the SAD employees are state employees and are chosen, as possible, from within the region. The salaries of regional office employees are paid from money transferred to the DLGF from the property reassessment funds of the counties. There is no allocation of regional office expenses to the counties.

State Assessment Board: The State Assessment Board is comprised of the State Assessing Supervisor, the 4 assistant supervisors, and the 10 regional assessors. The board makes recommendations to the DLGF Commissioner concerning managing the transition from local responsibility for property tax assessment, rules for the implementation of fair market value assessment, and appropriate statutory amendments.

County and Township Assessors: County and township assessors' terms in office end on December 31, 2010.

Assessor Training: Cost savings for assessor-appraiser training may result if the regional office system leads to lower turnover than an elected assessor system or if scheduled classes can be filled to capacity with state employees rather than locally employed assessors.

Under current law, the DLGF conducts assessor-appraiser training and provides for the certification and continuing education of assessor-appraisers. A catalogue of classes is available online, and classes are given in six locations throughout the state. The DLGF reports that most classes are not filled to capacity. The DLGF tracks the number of hours of continuing education credit each assessor-appraiser earns. In administrative rules, the DLGF requires Level I Assessor-Appraisers to earn 30 hours of continuing education credits during a four-year cycle and Level II Assessor-Appraisers to earn 45 hours during a four-year cycle.

County Assessment Costs: There are no current data available to indicate the amount paid by the counties for the assessing function. However, local units were required to submit this information through 2005. In 2005, county assessor budgets from the county general fund were $12.7 M and township assessor budgets were $28.4 M. On average between 1996 and 2005, budgets for county assessor offices increased 4.4% and township assessor budgets increased 3.8%, including years of increasing and decreasing budgets. Assuming these rates of growth continue, 2009 county general fund budgets for assessing are estimated at $48.0 M.

(*Note:* The analysis does not account for any efficiencies that may be created through the consolidation of the township assessing duties into the county assessor function.)

DLGF: On December 8, 2008, the DLGF had 10 vacant positions with a combined salary of $355,000. In FY 2008, the DLGF reverted $346,500 to the state General Fund. The appropriation for the DLGF for both FY 2008 and 2009 was $5.6 M

Explanation of State Revenues: *Property Reassessment Funds:* The DLGF would receive funds from counties to cover the salary expense for regional assessors and their staff. (See *Explanation of Local Revenues* for complete details.)

Sales Form Disclosure Penalty: The bill could increase the funds deposited into the State Assessment

Training Fund by increasing the base penalty for incomplete or inaccurate property conveyance forms from \$100 to \$500. This penalty, the greater of \$100 (or, as proposed, \$500) or 0.025% of the sale price of the real property transferred, is assessed by the county or township assessor, or after 2010 by the DLGF. The county auditor is to collect the penalty and deposit 50% in the county sales disclosure fund and 50% with the State Treasurer for deposit in the State Assessment Training Fund.

Explanation of Local Expenditures: *County Exemption Board:* The bill could result in potential cost savings by eliminating the five-member county property tax assessment board of appeals in each county, and creating the three-member county exemption board of appeals in each county.

County Auditors: Certain county assessor responsibilities will transfer to the county auditor including filing a resolution concerning economic revitalization and correction of errors discovered in the tax duplicate and access to all county computerized assessment records. Also, the county auditor is to provide administrative support to the county exemption board and certify to the county council the attendance record of the members of the board. The county auditor will publish meeting notices of the board in one or two newspapers and post notices in three public places.

Transfer of Records: The county and township assessors are to organize and transfer records to the DLGF as directed by the DLGF.

Background: Not more than two of the members of the county exemption board of appeals may be of the same political party. The county council is to fix the per diem rate of compensation for the members and pay the compensation for the days of attendance from the county treasury. Just like the county property tax assessment board of appeals, the county exemption board may employ and fix compensation of field representatives and hearing officers to perform the functions and duties of the board within the appropriations of the county council for this purpose. At the pleasure of the county board of exemptions, the field representatives are to review and hold hearings concerning exemptions. They are to report findings to the county board of exemptions in writing for the board to make a final decision on each matter. The county sheriff is to serve process for the county board of exemptions not served by the county auditor.

Explanation of Local Revenues: *Real Property Assessments:* Under current law, the next general reassessment will take effect with taxes payable in 2012. General reassessments will follow every five years, thereafter. Under this provision, the 2011 Pay 2012 general reassessment would be the last.

Beginning with taxes payable in 2016, real property assessed values would be based on fair market value (FMV). The FMV of an individual property for taxes payable in 2016 would be based on the most recent arms-length sale that occurred between and including January 1, 2010, and February 28, 2015. If there were no arms-length sales during that time or if the property was physically altered, then the FMV would be estimated. The DLGF would have to determine the FMV for all real property parcels for taxes payable in 2016.

After the initial FMV is determined, the FMV for assessment purposes would be updated only when the DLGF has determined that the property has undergone a physical change or when the property owner petitions for a new determination because of a physical change.

Real property AV growth rates would slow considerably under this proposal. Changes in assessments drive tax shifts and, along with levy growth, affect the cost of circuit breaker credits. Assuming that the actual value of real property will show overall positive growth in the future, the property tax cap for each property will rise each year by the growth rate of that property's valuation. If the net tax on a property is already reduced by the circuit breaker, then the cost of that circuit breaker credit would grow each year (as long as the property is not altered) under this bill because the cap would be stationary. This would create a larger deficit in tax collections for local civil taxing units and school corporations.

As personal property assessments rise over time, the change in real property assessments under this bill would cause a shift of part of the property tax burden from real property to personal property.

Property Reassessment Funds: The bill will have indeterminate fiscal impact on the individual counties, depending on how DLGF allocates costs for the regional assessor and staff salaries. The method of salary expense allocation is not specified in the bill.

Under current law, revenue to the county reassessment fund results from property taxes levied by the county council for the fund; an amount equal to the annualized cost of the five-year assessment of property, and from other miscellaneous revenues. Under the bill, each calendar year, the DLGF is to inform the county auditor of the amount to be transferred to the DLGF for the succeeding calendar year. The county council will be instructed to appropriate the amount specified.

The allocation of salary expense could vary widely from current county assessing because office operating expenses are not included in the county share, the proration of costs among the counties in the region could reduce or increase costs, and the actual salary costs are set at the state level. If a county is required to levy more for the property tax reassessment fund than previously required, caps on levy increases may apply, reducing levy capability for other funds.

Statewide, county property reassessment fund levies totaled $19.8 M in 2008 (2007 for some counties). Reassessment fund budgets for the same time frame totaled $33.4 M.

Sales Form Disclosure Penalty: The bill could increase the funds deposited into the county sales disclosure fund by increasing the base penalty for incomplete or inaccurate property conveyance forms. Fifty percent of the revenue received is to be deposited in the local fund by the county auditor.

Transfer of County Records: County and township assessors' term in office ends on December 31, 2010. The DLGF would adjust the maximum permissible ad valorem property tax levy of a county or a township to reflect the transfer of records and operations to the DLGF. The adjustment is to be applied to property taxes first due and payable in 2011.

State Agencies Affected: DLGF.

Local Agencies Affected: County assessors and auditors; township assessors.

Information Sources: Local Government Database.

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